

Before the Illinois Commerce Commission
Public Conference on Standard Market Design
Comments of Exelon Corporation

October 15, 2002

Exelon Corporation and its subsidiaries appreciate the opportunity to submit their views on the Standard Market Design Notice of Proposed Rulemaking pending at the Federal Energy Regulatory Commission ("FERC"). Exelon is a registered utility holding company. Our two utilities, Commonwealth Edison (ComEd) of Chicago, and PECO Energy of Philadelphia, serve over 5 million electric customers, the largest electric customer base in the United States. We have more than 40,000 MW of generating capacity, the second largest portfolio in the United States. Our wholesale power marketing division, known as the Power Team, markets the output of our generation portfolio throughout the lower 48 States and Canada with a perfect delivery record.

Exelon supports the direction that FERC has taken and wholeheartedly endorses the idea of standard market rules and a single transmission tariff. The rule incorporates best practices from energy markets throughout the world: FERC has learned from both successful and failed markets what should and should not be incorporated into a standardized market. By contrast with the unsuccessful California wholesale market design, the essential features of FERC's standard market design have already been shown to work in regions like PJM.

Studies have repeatedly shown that efficient competitive wholesale markets bring real benefits to consumers. Regional transmission organizations – a crucial part of SMD – could save consumers as much as \$60 billion by 2021.¹ Wholesale competition – incomplete as it is – has already benefited consumers; the average price of electricity has gone down as much as 35 percent since the introduction of wholesale competition in the 1980s.²

There have been a number of efforts during the past decade to open wholesale power markets to competition. Notwithstanding these efforts, the Nation's electricity markets remain inefficiently disjointed. The solution is a thoughtful, cohesive and standardized design for the Nation's wholesale electricity markets. A standard design will benefit all interests by reducing transaction costs and connecting buyers and sellers across greatly expanded market areas. Adoption of a standard wholesale market design with nationally integrated rules is imperative to avoid more California-style crises.

FERC's bold proposal, which was developed with the benefit of a significant outreach program to solicit the views of various sections of the industry, the government and consumers, is broad and far-reaching. The SMD principles are practical, workable, and economically sound. SMD would apply the same set of rules for all users. It includes clear pricing and planning policies, consumer protection through mitigation and oversight, market rules that protect against manipulation, and regulations that enhance reliability. All told, it clearly will lead to a more efficient, effectively functioning marketplace.

¹ "Economic Assessment of RTO Policy" prepared for FERC by ICF Consulting on February 26, 2002

² "2000 Data Update: Assessing the "Good Old Days" of Cost-Plus Regulation" study prepared for EPSA by the Boston Pacific Company

STANDARDIZED MARKET AND A SINGLE TRANSMISSION TARIFF

For the competitive electricity supply industry to function efficiently and deliver electricity where and when consumers need it, electricity markets within the contiguous States must operate seamlessly. Supply must be allowed to seek out demand without encountering local roadblocks and tollbooths at every state line. Our current balkanized transmission system makes it difficult to transmit power from region to region, drives up costs, and harms reliability. Standardized market design will solve these problems by creating uniform rules and allowing all transmission customers to operate under the same procedures and pricing structure. SMD will allow all transmission users to schedule power deliveries using multiple receipt and delivery points, putting them on a fair footing with transmission owners and preventing manipulation of the transmission system. Congestion on the grid will be managed through an efficient locational marginal pricing (“LMP”) system. For regional markets to be fully coordinated, data systems, software, user interfaces and business processes will have to be standardized to the fullest extent possible.

Exelon has extensive experience operating in the Pennsylvania-New Jersey-Maryland Interconnection (“PJM”) marketplace, long recognized as the Nation’s most successful regional wholesale market. Indeed, our subsidiary PECO Energy was one of the founding members of PJM, and we are proud of the fact that PJM has pioneered many successful practices that FERC proposes to apply across the country. In marked contrast to California’s flawed system, PJM’s LMP market design has proven to be the Nation’s most reliable and efficient market design.

Many industry experts recognize that LMP works. For example, the Transmission Grid Solutions Subcommittee of Secretary of Energy Spencer Abraham’s Electricity Advisory Board, recently endorsed LMP. The Subcommittee, which includes representatives from public power, state regulatory commissions, investor-owned utilities, independent system operators and independent power producers, applauded FERC’s effort to continue to implement LMP and the initiative to require RTOs to adopt such a system.

SMD would solve a number of the transmission concerns that were raised during the Senate’s debate on the National Energy Policy Act. When PJM implemented LMP, it successfully addressed a number of transition issues. PECO’s historic capacity rights formed the basis for the initial allocation of financial transmission rights, or FTRs. Based upon our experience, we can state unequivocally that LMP does not interfere with, or harm, a utility’s ability to serve its native load customers. The same is true for the FERC SMD rulemaking proposal.

MARKET MONITORING AND OVERSIGHT

States provide a vital role in consumer protection, but they cannot be individually responsible for protecting their citizens from dysfunctional markets. Simply put, attempting to build electricity islands, as defined by State borders, ignores the truly interstate nature of wholesale electricity markets and the reality of the way electricity markets work. The State of California designed a flawed system that drove up prices in the entire West. Through the creation of a standardized market, with rational market rules that encourage risk management and enhance transparency, can consumers benefit and escape undue discrimination. Wholesale electric markets are regional; the rules that govern them cannot be decided on a

state-by-state basis. Electricity does not and should not stop at the state line – regional markets promote reliability and lower costs.

Standardized rules for operation of the transmission system will prevent the exploitation of “seams” between regions and help lower costs for all consumers by thwarting the efforts of some transmission owners to favor their own generation over lower cost options. SMD will increase price transparency and oversight of the markets, and standardized rules will prohibit much of the gaming that Enron was accused of inflicting on the California market. The FERC has provided extensive analysis of how the SMD will eliminate exposure to such practices in Appendix E of the NOPR.

REGULATORY CERTAINTY WILL CALM CAPITAL MARKETS AND ENCOURAGE INVESTMENT

The regulatory certainty provided by SMD will enhance needed investment in transmission and generation and stabilize the industry. Delaying or preventing its implementation would not only harm electricity consumers, it would also be deeply harmful to our national economy and energy supply. The financial markets have welcomed the SMD. One of the major reasons that companies have been reluctant to invest in much-needed transmission expansion is current uncertainty about the rules under which transmission will operate. Electricity generators and transmission owners alike recognize that transmission owners must be able to recover their investments, plus a fair return on those investments. The President’s National Energy Policy Report predicted that demand for electricity would increase by about 25 percent over the next ten years, while electric transmission capacity would only increase by four percent. SMD implementation would clarify the importance of adding transmission infrastructure and promote investment in the grid. A system of congestion revenue rights will provide the appropriate economic signals to encourage investment in and efficient use of the transmission system. This provides real incentives for investment in much needed infrastructure.

SMD IS A PROPOSED RULEMAKING, NOT A FINAL RULE

Standard Market Design is a step in the ongoing evolution of the electric industry – it is neither the first word on the subject nor the final chapter. This is a move to strengthen the markets that developed after FERC’s Orders No. 888, 889 and 2000. The SMD is critical to completing Congress’ vision and FERC’s of genuine wholesale competition, efficient transmission systems, the right pricing signals and more options for consumers. As circumstances shift overtime, I am sure that there will be proceedings to calibrate the SMD rule and propose enhancements to the wholesale electricity market.

FERC does not anticipate final implementation of the rule until 2004. We believe this is sufficient time to allow an orderly transition to the new marketplace. Exelon and other stakeholders will file comments on this rulemaking, urging changes, fine-tuning and clarification. We agree with the destination of the SMD, but have suggestions that will help make it better when we get there. We believe that SMD is an excellent move towards promoting nondiscriminatory competitive markets, and we support going forward with the rulemaking process. Everyone involved in the process, including the FERC, recognizes that the current proposal needs refinement; that is what the rulemaking process is all about. But we are confident that the FERC, and its fine staff, will get the job done.

We are puzzled by the attitude of some that SMD goes “too far, too fast.” Without SMD our Nation’s electricity markets will continue to be erratic and subject to market power abuse. State regulators will see a change in their role once SMD is implemented, to be sure. As the Supreme Court recognized in its review of Order Nos. 888 and 889, the Nation’s electric supply system epitomizes interstate commerce and cannot effectively be regulated by individual states. A thoughtful, standard market design for wholesale electricity markets is imperative to the future health not only of the electricity supply industry, but also to the Nation’s economic recovery.